Memorandum

To:	Richard D. Cannone City of Hallandale Beach
From:	Paul Lambert Lambert Advisory LLC
Date:	August 27, 2008
Subject:	The Village at Gulfstream Park Tax Increment Commitment Request

Lambert Advisory has completed its assessment of the request for an on-going investment by The City of Hallandale Beach's Community Redevelopment Agency (CRA) in The Village at Gulfstream Park project.

The Phase I portion of The Village at Gulfstream Project, currently under construction and scheduled for completion in October of 2009, includes approximately 380,000 square feet of retail, 88,000 square feet of office, parking garages to accommodate approximately 1,000 vehicles, which also serves as the podium/foundation for a full service hotel and a multi-story residential structure, as well as associated infrastructure and street improvements. Total development costs of the Phase I project are estimated to be approximately $250 million with $60.29 million of this amount (approximately $49 million after costs and accrued interest is available for capital cost) financed through Community Development District bonds which, while tax exempt, require repayment from project revenue.

In broad terms, The Village at Gulfstream Park is seeking a commitment of upwards of $2.0 million per year from the CRA for the life of the CRA. The proposal to the CRA from The Village at Gulfstream Park seeks a phasing of the commitment, with $900,000 committed concurrent with the completion of Phase I including that portion of the overall property currently under construction, an additional $600,000 per year upon completion of a subsequent retail/small cinema phase, and a final $500,000 (for a total of $2.0 million) upon completion of a third phase of development.

While it is quite unusual that such a request for a commitment of increment be made after the commencement of construction, representatives of The Village at Gulfstream Park have indicated that the project requires the dedication of increment at this stage due to significantly eroded economics of the project. Construction commenced at the beginning of the broad downturn in the South Florida real estate market which has in turn substantially slowed tenant leasing particularly for a series of high profile tenants. These tenants serve as "bell cows" in turn creating momentum in the project by attracting other retailers. The Village at Gulfstream Park holds that the investment of increment is now required so that they have the capital available to execute leases with these high profile tenants and that acceptable return-on-investment thresholds for the project cannot be achieved given the cost of attracting these tenants without the requested dedication of increment from the CRA.

From our own experience, this notion of "bell cow" tenants is a well founded principal in the retail industry and it is reasonable that the need to sign leases in short order with these tenants is an important aspect of The Village at Gulfstream Park project's success. Additionally, as has been stated in a number of reports of economic impact associated with the Village project prepared on behalf of or provided to the City, we generally concur that there are broad economic benefits to the City of a highly successful Village at Gulfstream Park. These include enhanced value of surrounding real estate, job creation, and other tangible and intangible benefits. However, our review principally focused on answering the question: "Without a commitment of increment would the developer still be able to achieve the same high quality tenant mix and does such tenant mix in fact make for a substantially more valuable project for the community?" Or, as the owner's representatives have held; without the commitment of increment, some high quality tenants could likely be lost to competitors and in turn the overall market position and attraction of The Village at Gulfstream Park will be diminished.

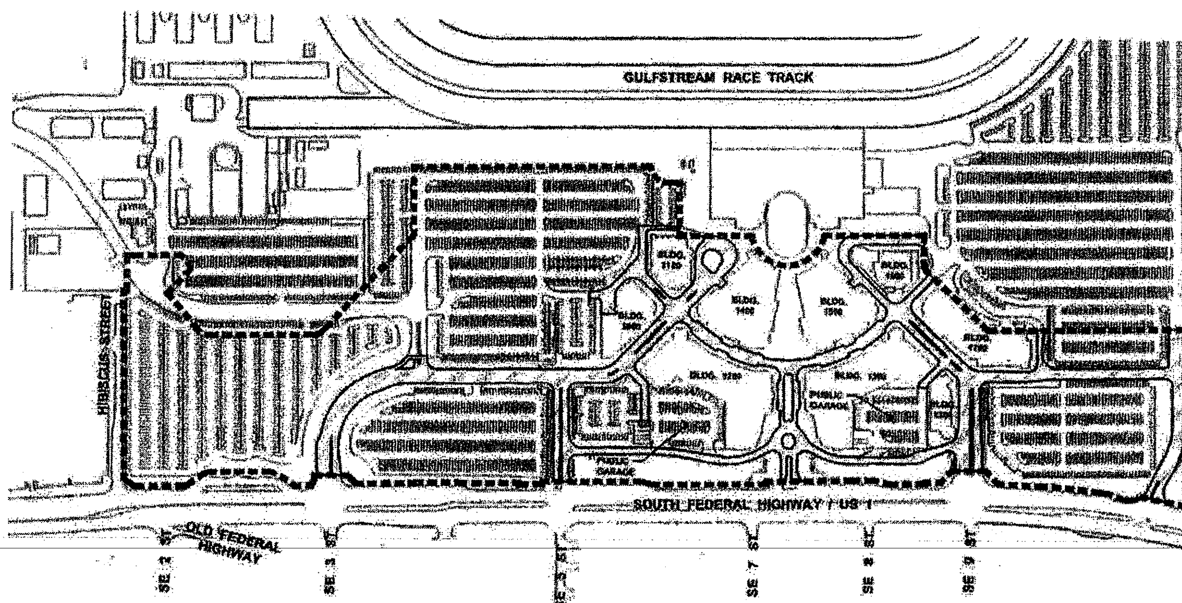
At the outset, and given the fact that The Village at Gulfstream Park has indicated that the primary need for tax increment is to attract the small number of key tenants through the commitment of $900,000 per year, we recommend that the City only consider the request for the $900,000 annual commitment at this time. The representatives of the project have indicated that this is the dedicated increment they believe necessary to attract the key tenants for the Phase I program and therefore meets the current challenge associated with leasing the center. Additional consideration of increment may be taken up in the future as the project evolves.

As part of our effort, we have reviewed reports prepared by ERA (June 2008) and Fishkind (2008) with regard to economics associated with the project, the increment/economic benefits and fiscal analysis. We have also conducted three interviews with representatives of The Village a Gulfstream Park, one of which included an "in camera" review of key documents and analysis which we requested from the developer. This review did not allow for copies of documents to be removed or detailed note taking in order to protect the confidentiality of the current financial status and leasing position of the project. While this is a bit unusual from our experience, we felt that confidentiality was an appropriate protection in this case given the sensitivity to on-going lease negotiations and highly competitive nature of the Southeast Broward/Northeast Miami Dade retail leasing market. That stated, we do believe it is important that the City receive a letter of assurance from the project developer prior to the commitment of any increment, that every document shared with Lambert Advisory, and upon which our analysis was based, was the most current and actual documents being relied upon by the development team to assess and measure the project's current position. At the same time, there is nothing which would lead us to believe that the documents and analyses which were shared with us within each meeting are any less than those relied upon by the partners to make decisions regarding the project investment, economics and leasing.

As part of our effort, we reviewed the LLC Agreement for Village at Gulfstream which is the operating agreement for The Village at Gulfstream development and lays out the business terms between Forest City's single purpose entity and GPRA Commercial Enterprises Inc. (a subsidiary of Magna Entertainment Corp.), the Offering Memorandum associated with $60.285 million in bonds associated with the Community Development District, detailed project cash flow statements, a land lease between Magna's subsidiary and Village at Gulfstream Park and the project leasing plan.

It is important to note that our review was principally related to that portion of the Gulfstream property known as the Village at Gulfstream Park which explicitly excludes the racetrack/casino, racing associated facilities and that portion of the property located within Miami-Dade County (see Figure 1).

Figure 1
Village of Gulfstream Park Boundary Map



As discussed below, while we believe the marketing and revenue benefits from the development of The Village at Gulfstream Park are of value to the casino/racetrack and should be taken into account from the CRA's perspective; this was not accounted for or calculated as part of The Village at Gulfstream Park analysis reviewed with us by the developer because these benefits accrue exclusively to the racetrack/casino operator/owner but not the mixed use development entity which has a broader ownership structure.

The principal findings from our assessment, review and interviews are as follows:

- The partner's involved in The Village at Gulfstream Park development are making substantial cash investment in the project. This investment appears to be consistent with other projects of similar cost and scale. While a portion of Forest City's investment may be offset to a modest extent by on-going fees (i.e. development, management, leasing, etc) and a favorable land lease structure which helps mitigate the company's long term risk exposure, both Forest City and MEC have made a significant at risk investment in the project which is dependent upon project success to be returned.

- Based upon current total development cost estimates, cost of financial carry, and investment of equity, the investors in Village at Gulfstream Park are expecting to earn a modest return-on-investment (ROI) in the project which would typically be considered below ROI hurdles for projects of this type and complexity prior to commencement of development. While there is no indication that the project is at risk of not reaching completion, the leasing pace is slower than would be expected for a mixed use center of this size and type and there is a reasonable risk that returns could erode because the cost of leasing the development may increase (principally through tenant allowances).

- There are several potential sources of income which are not accounted for in the analysis at this stage and which may enhance returns to the project owners. These include parking (particularly valet) and signage advertising/sponsorship revenue. While difficult to estimate given the mix of retail and casino/horse racing on the property, these revenue sources can enhance to varying degrees the bottom line in successful developments. Measuring for these sources of revenue would increase returns to some extent which would then require a lower commitment of increment.

- While revenue and expenses associated with the racetrack/casino property are not accounted for in the analysis since it is not part of The Village at Gulfstream Park, there are clear financial benefits to the casino and track of having a highly successful adjoining mixed use development with retail and hotel. While the increase in revenue associated with the track and casino flow through to some extent to the City in the form of the city's participation in slot revenue, a portion of the value of the CRA's investment in the mixed use development accrue to the owners of the track and casino without any fiscal benefit to the City. This has not been accounted for in the The Village at Gulfstream Park presentation of the current financial need of the project and is very difficult to measure (where does the line between the draw of the casino/racetrack and retail/entertainment start and end?). The reason this has not be presented as a return is presumably because only one of the two partners in the venture derive any benefit from the enhanced foot traffic to the casino/racetrack. However, from the perspective of the CRA, these returns clearly accrue to a private investor in the project and should be considered in the decision to dedicate increment to the project.

- Fishkind appears to accurately reflect the amount of increment which will be produced by the Phase I development. This is approximately $2.07 million in Year 2 including increment from the four taxing bodies which contribute to increment (City, County, Hospital District, and Children's Services). It likewise assumes that the retail, office, and hotel elements of the project are on the tax rolls by 2011.

Recommendations

While our brief analysis was somewhat constrained by time and the conditions of confidentiality, we can conclude that any decision by the CRA to commit increment to the Village of Gulfstream project is highly unlikely to cause the project to fail. Indeed, even without the commitment of increment, and given the capacity and wherewithal of the development entity, the project is likely to enjoy a fair degree of success over the long term. Rather, the principal risk of not investing increment into The Village at Gulfstream project at this stage is that the absence of increment may cause the development to become a rather ordinary retail entertainment center as opposed to one of the better positioned centers in south Broward or North Miami Dade County. Given its prominence and scale, The Village at Gulfstream Park will clear define future investment along Hallandale Beach Boulevard for the next decade and beyond. For this reason alone, the CRA may want to consider a carefully structured dedication of increment, if in turn, it can obtain confidence that the quality of the project is significantly enhanced by such investment. In this light, and under very specific conditions, we recommend that the City seriously consider the request for a commitment of $900,000 in annual increment to the project for the remaining life of the CRA under the following conditions:

- Based upon projections provided by The Village at Gulfstream Park, the $900,000 requested commitment of increment represents approximately 50% of the increment generated from the real estate taxes from the project. Given other pressing needs of the CRA, we recommend that any dedication of increment to the Village project be expressed as the lesser of 50 percent of the increment collected by the CRA from all sources in any given year or $900,000. This insures the CRA will continue to have substantial increment with which it can allocate to other needs and puts the onus on the project developers to produce a project which has adequate underlying value to support the dedicated investment requested.

- Because the developer of the project has clearly indicated that the principal need for a dedication of increment is to attract a certain quality of tenant which in turn sets the quality standard for the project over the long term, it is important that the CRA only dedicate its increment should this "quality" threshold be met. The challenge to establishing a quality standard without naming specific tenants (which for competitive reasons would be very problematic at this stage from the perspective of the developer and the City in our view) is that the notion of "quality standard" is subject to broad interpretation. However, we strongly recommend prior to any dedication of increment, the developer prove to the satisfaction of the City that this agreed upon quality threshold has been met. A method of defining this threshold is going to require specific and careful discussion with The Village at Gulfstream Park.

- Given that the CRA should only dedicate increment to The Village at Gulfstream Park given the current market environment and to mitigate certain risks of realizing broader benefits to the community; if the project performs better than currently anticipated by the developer and as presented; the dedication of increment should cease. Additionally, we believe the CRA should further begin to recover any increment which has been invested in the project up-to-the-date that certain performance thresholds have been met. The test should be applied on an annual basis. There are several thresholds: "cash-on-cost", "cash-on-cash", and Internal Rate of Return (IRR) among others which are easily defined, the developer of the project calculates as a matter of course, are subject to audit, and to which projects across the real estate industry can be benchmarked. Any of these thresholds can be used as the developer's return "floor" above which the CRA would cease to provide increment to the project and would begin to recover any increment which was dedicated prior to the threshold being met. We would recommend that the performance measure to be used be either the developer's cash-on-cost calculation as presented to us in meetings with the project representatives or another measure commonly referred in the real estate industry as cash-on-cash return which measures the net income which flows from the development on an annual basis against the amount of money which the investors (net of debt) put into the project. The advantages of these measures over Internal Rate of Return are that they can be easily calculated on an annual basis. If the CRA has dedicated any funds to The Village at Gulfstream project, the CRA can recover this investment (plus interest) by splitting the cash flow above the threshold 50/50 with The Village at Gulfstream Park until such time as the CRA's total investment is repaid. A separate IRR threshold calculation can be applied if and when the project is sold to a third party entity. While there is no guarantee that the project will ever achieve these thresholds, and it does impose a level of complication, this is a clearly defined method of mitigating the opportunities lost by the CRA because it dedicated increment to a project which would otherwise provide unnecessary benefit to private investors at the expense of the broader community. While our review provides a reasonable understanding of project economics, the limits of time and experience with the project, and point-in-time nature of our work strongly suggest that the CRA protect its long term interest by having a method by which the CRA can recover some or all of its dedicated increment should the project perform better than currently anticipated or what our review might suggest.

- Finally, the City should establish strict timeframe for performance to insure that the benefits of the project (partially as a result of the CRA's investment) accrue to the community sooner rather than later. The CRA should retain the right to revisit its investment of increment should the project not receive a certificate of occupancy for the Phase I project as approved by April of 2010, or the casino and/or racetrack cease to operate. It is reasonable to assume that if the racetrack/casino ceases operation, the project may need increment to a greater extent, but it is virtually impossible to understand all of the implications of this event taking place at this time and the CRA needs the right to reassess its position in relation to the project under these circumstances.

We look forward to discussing our findings and assessment with you further. Should you have any questions or comments, please let me know at your earliest convenience.